

CITY OF STUART
INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS
SUPPLEMENTARY AND OTHER INFORMATION
SCHEDULE OF FINDINGS

JUNE 30, 2015

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City of Stuart

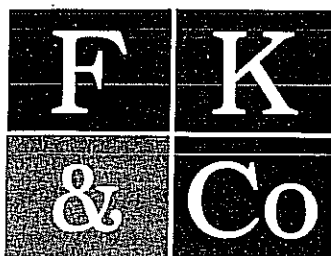
Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Dick Cook	Mayor	January 1, 2018
Bryan Beldon	Mayor Pro tem	January 1, 2018
Wade Chafa *	Council Member	January 1, 2016
James Morgan	Council Member	January 1, 2016
Neal Crawford	Council Member	January 1, 2018
Matt Funk	Council Member	January 1, 2018
Eric Weber **	Council Member	January 1, 2016
Ashraf M. Ashour	Administrator/Clerk/Treasurer	Indefinite
William Bump	Attorney	Indefinite

* - Resigned in July, 2014.

** - Appointed in August, 2014.

City of Stuart



FALLER, KINCHELOE & CO, PLC

Certified Public Accountants

Independent Auditor's Report

To the Honorable Mayor and
Members of the City Council:

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Stuart, Iowa, (City) as of and for the year ended June 30, 2015, and the related Notes to Financial Statements, which collectively comprise the City's basic financial statements listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the cash basis of accounting described in Note 1. This includes determining the cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. This includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the City's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

Basis for Adverse Opinion on Aggregate Discretely Presented Component Units

The financial statements referred to above do not include financial data for the City's legally separate component units. Accounting principles applicable to the cash basis of accounting require financial data for these component units to be reported with the financial data of the City's primary government unless the City also issues financial statements for the financial reporting entity that include the financial data for its component units. The City has not issued such reporting entity financial statements. The amounts by which this departure would affect the receipts, disbursements and the cash basis balances of the aggregate discretely presented component units has not been determined.

Adverse Opinion on Aggregate Discretely Presented Component Units

In our opinion, because of the significance of the matter described in the "Basis for Adverse Opinion on Aggregate Discretely Presented Component Units" paragraph, the financial statements referred to above do not present fairly the financial position of the aggregate discretely presented component units of the City as of June 30, 2015, or the changes in financial position thereof for the year then ended in conformity with the basis of accounting described in Note 1.

Unmodified Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City as of June 30, 2015, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

Basis of Accounting

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a basis of accounting other than U.S. generally accepted accounting principles. Our opinions are not modified with respect to this matter.

Emphasis of a Matter

As disclosed in Note 4 to the financial statements, the City adopted new accounting guidance related to Governmental Accounting Standards Board (GASB) Statement No. 68, Accounting and Financial Reporting for Pensions. Our opinions are not modified with respect to this matter.

Other Matters

Supplementary and Other Information

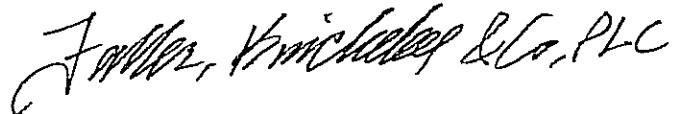
Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The financial statements for the two years ended June 30, 2014 (which are not presented herein) were audited by another auditor who expressed unmodified opinions on those financial statements which were prepared on the basis of cash receipts and disbursements. The supplementary information included in Schedules 1 through 4 is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with U.S. generally accepted auditing standards. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The other information, the City's Management's Discussion and Analysis, the budgetary comparison information, the Schedule of the City's Proportionate Share of the Net Pension Liability and the Schedule of City Contributions on pages 8 through 13 and 28 through 32 has not been subjected to the auditing procedures applied in the audit of the basic statements and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated January 28, 2016, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the City's internal control over financial reporting and compliance.

A handwritten signature in black ink, reading "Faller, Kincheloe & Co., PLC". The signature is written in a cursive, flowing style.

FALLER, KINCHELOE & CO., PLC

Des Moines, Iowa
January 28, 2016

MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of Stuart (City) provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2015. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

2015 FINANCIAL HIGHLIGHTS

- Receipts of the City's governmental activities decreased 20.8%, or approximately \$1,053,000, from fiscal year 2014 to fiscal year 2015. Capital grants, contributions and restricted interest increased approximately \$265,000, tax increment financing receipts increased approximately \$356,000, bond and note proceeds decreased approximately \$1,513,000 and miscellaneous receipts decreased approximately \$264,000.
- Disbursements of the City's governmental activities decreased 52.2%, or approximately \$3,735,000, in fiscal year 2015 from fiscal year 2014. Debt service and capital projects disbursements decreased approximately \$1,898,000 and \$1,046,000, respectively.
- The City's total cash basis net position increased 19.6%, or approximately \$590,000, from June 30, 2014 to June 30, 2015. Of this amount, the cash basis net position of the governmental activities increased approximately \$577,000, and the cash basis net position of the business type activities decreased approximately \$13,000.

• USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the City's financial activities.

The Government-wide Financial Statement consists of a Cash Basis Statement of Activities and Net Position. This statement provides information about the activities of the City as a whole and presents an overall view of the City's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report the City's operations in more detail than the government-wide financial statement by providing information about the most significant funds.

Notes to Financial Statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Other Information further explains and supports the financial statements with a comparison of the City's budget for the year and the City's proportionate share of the net pension liability and related contributions.

Supplementary Information provides detailed information about the non-major governmental funds and the City's indebtedness.

BASIS OF ACCOUNTING

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operation of the funds in accordance with U.S. generally accepted accounting principles. Therefore, when reviewing the financial information and discussion within this annual report, readers should keep in mind the limitations resulting from the use of the cash basis of accounting.

REPORTING THE CITY'S FINANCIAL ACTIVITIES

Government-wide Financial Statement

One of the most important questions asked about the City's finances is, "Is the City as a whole better off or worse off as a result of the year's activities?" The Cash Basis Statement of Activities and Net Position reports information which helps answer this question.

The Cash Basis Statement of Activities and Net Position present the City's net position. Over time, increases or decreases in the City's net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Cash Basis Statement of Activities and Net Position is divided into two kinds of activities:

- Governmental Activities include public safety, public works, culture and recreation, community and economic development, general government, debt service, and capital projects. Property tax and state and federal grants finance most of these activities.
- Business Type Activities include the sanitary sewer system. These activities are financed primarily by user charges.

Fund Financial Statements

The City has two kinds of funds:

1) Governmental funds account for most of the City's basic services. These focus on how money flows into and out of those funds, and the balances at year-end that are available for spending. The governmental funds include: 1) the General Fund, 2) the Special Revenue Funds, such as Road Use Tax, and Trust & Agency funds, 3) the Debt Service Fund, 4) the Capital Projects Fund and, 5) the Permanent Fund. The governmental fund financial statements provide a detailed, short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

The required financial statements for governmental funds are a Statement of Cash Receipts, Disbursements and Changes in Cash Balances.

2) Proprietary funds account for the City's Enterprise Funds. Enterprise Funds are used to report business type activities. The City maintains an Enterprise Fund to provide separate information for the Sewer Fund, considered to be a major fund of the City.

The required financial statements for proprietary funds are a Statement of Cash Receipts, Disbursements and Changes in Cash Balances.

Reconciliations between the government-wide financial statement and the fund financial statements follow the fund financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net position may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities increased from a year ago, increasing from approximately \$2.153 million to approximately \$2.73 million. The analysis that follows focuses on the changes in cash basis net position of governmental activities.

Changes in Cash Basis Net Position of Governmental Activities (Expressed in Thousands)		
	Year Ended June 30,	
	2015	2014
Receipts:		
Program receipts:		
Charges for service	\$ 350	334
Operating grants, contributions and restricted interest	236	-
Capital grants, contributions and restricted interest	464	-
General receipts:		
Property tax	665	704
Tax increment financing	1,179	823
Other city tax	-	225
Local option sales tax	138	-
Hotel/Motel tax	97	-
Licenses and permits	-	4
Use of money and property	-	28
Intergovernmental	-	381
Special assessments	-	4
Grants and contributions not restricted to specific purposes	80	-
Unrestricted interest on investments	1	-
Bond and note proceeds	675	-
Miscellaneous	113	358
Other funding resources	-	2,191
Sale of capital assets	1	-
Total receipts	3,999	5,052
Disbursements:		
Public safety	497	554
Public works	228	266
Culture and recreation	163	156
Community and economic development	210	953
General government	297	257
Debt service	1,048	2,946
Capital projects	979	2,025
Total disbursements	3,422	7,157
Change in cash basis net position	577	(2,105)
Cash basis net position beginning of year (July 1, 2014 restated)	2,153	8,244
Cash basis net position end of year	\$ 2,730	6,139

The City's total receipts for governmental activities decreased 20.8%, or approximately \$1,053,000. The total cost of all programs and services decreased approximately \$3,735,000, or 52.2%, with no new programs added this year. The decrease in receipts was the result of a decrease in bond and note proceeds. The decrease in disbursements is the result of a decrease in debt service and capital projects.

The cost of all governmental activities this year was approximately \$3.422 million compared to approximately \$7.157 million last year. However, as shown on the Statement of Activities and Net Position on page 15, the amount taxpayers ultimately financed for these activities was \$2.371 million because some of the cost was paid by those directly benefited from the programs (approximately \$350,000) or by other governments and organizations that subsidized certain programs with grants, contributions and restricted interest (approximately \$701,000). The City paid for the remaining "public benefit" portion of governmental activities with property tax (some of which could only be used for certain programs) and with other receipts, such as interest, local option sales tax and miscellaneous receipts. Overall, the City's governmental activities receipts, including intergovernmental aid and fees for service, increased in fiscal year 2015 from approximately \$748,000 to approximately \$1,051,000, principally due to increased capital grants and restricted interest in fiscal year 2015 compared to fiscal year 2014.

Changes in Cash Basis Net Position of Business Type Activities (Expressed in Thousands)		
	Year Ended June 30,	
	2015	2014
Receipts:		
Program receipts:		
Charges for service:		
Sewer	\$ 352	351
General receipts:		
Unrestricted interest on investments	1	-
Use of money and property	-	1
Total receipts	<u>353</u>	<u>352</u>
Disbursements:		
Sewer	<u>340</u>	<u>295</u>
Total disbursements	<u>340</u>	<u>295</u>
Change in cash basis net position	13	57
Cash basis net position beginning of year	<u>855</u>	<u>798</u>
Cash basis net position end of year	<u>\$ 868</u>	<u>855</u>

Total business type activities receipts for the fiscal year were approximately \$.353 million compared to approximately \$.352 million last year. The increase was due primarily due to an increase in charges for services in fiscal year 2015. The cash balance increased approximately \$13,000 from the prior year. Total disbursements for the fiscal year increased 15.3% to approximately \$.34 million.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City completed the year, its governmental funds reported a combined fund balance of \$2,729,786, an increase of more than \$577,000 above last year's total of \$2,152,771. The following are the major reasons for the changes in fund balances of the major funds from the prior year.

- The General Fund cash balance increased by \$76,481 from the prior year to \$1,116,403. The City has been watching the General Fund very close in order to stabilize the balance in this fund.
- The Special Revenue, Urban Renewal Tax Increment Fund cash balance increased by \$273,089 from the prior year to \$443,487. This increase was just due to requesting more tax increment financing funds from the County.

- The Debt Service Fund cash balance increased by \$5,666 during the fiscal year to a total of \$56,537. In the fiscal year, the City just levied more than the related costs incurred in this fund.
- The Capital Projects Fund cash balance increased by \$140,275 during the fiscal year to a total of \$522,898. The City obtained \$675,000 in bond and note proceeds in fiscal year 2015, which have not all been spent by June 30, 2015.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- The Enterprise, Sewer Fund cash balance increased by \$13,470 to \$868,277. The City continues to build up reserves in this fund in order to have monies available to pay for future unexpected costs associated with the Sewer system.

BUDGETARY HIGHLIGHTS

During the course of the year, the City amended its budget one time. The budget was amended because of equipment purchases and capital projects which were greater than originally anticipated. The City had sufficient cash balances to absorb these additional costs.

The City's receipts were \$288,429 more than budgeted. This was primarily due to the City receiving more miscellaneous receipts than anticipated, even after the budget amendments.

Even though the City did not go over budget in total, disbursements in the debt service function was \$701,431 more than the amended budget amount. This occurred because some debt service payments were budgeted in the community and economic development function instead of the debt service function.

DEBT ADMINISTRATION

At June 30, 2015, the City had approximately \$10,604,000 in bonds and other long-term debt outstanding, compared to approximately \$14,293,000 last year, as shown below.

Outstanding Debt at Year-End (Expressed in Thousands)		
	June 30,	
	2015	2014
Annual appropriation general obligation bonds and notes	\$ 8,145	-
General obligation bonds and notes	1,170	-
Sewer revenue bonds	1,189	-
Other debt	100	-
General obligation notes	-	12,860
Revenue notes	-	1,303
Bank loans	-	130
Total	\$ 10,604	14,293

Debt decreased as a result of the payoff of existing debt in the fiscal year.

The amount of general obligation debt a political subdivision of the State of Iowa can incur is controlled by constitutional debt limit, which is an amount equal to 5% of the actual value of property within the corporate limits, taken from the last county tax list. The City's debt limit, based upon said valuation, amounts to the following:

Actual Value of Property, 2013	\$ 83,471,932
Debt Limit	<u>5%</u>
	<u>\$ 4,173,597</u>

The City continues to pursue an aggressive payback schedule on most of the debt issues outstanding. This allows the City the flexibility to issue new debt to finance additional projects on a regular basis.

The Constitution of the State of Iowa limits the amount of general obligation debt cities can issue to 5% of the assessed value of all taxable property within the City's corporate limits. The City's outstanding general obligation debt of \$1,609,433 (including \$439,433 of development and rebate agreements) is significantly below its constitutional debt limit of \$4,173,597. Additional information about the City's long-term debt is presented in Note 3 to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The City's elected and appointed officials and citizens considered many factors when setting the fiscal year 2016 budget, tax rates, and fees that will be charged for various City activities. One of those factors is the economy and the rising costs of employee benefits.

These indicators were taken into account when adopting the budget for fiscal year 2016. Amounts available for appropriation in the operating budget are approximately \$6.7 million, keeping in line with 2015 budget year.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

The financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Ashraf Ashour, City Administrator, 119 E. Front Street, Stuart, Iowa 50250.

Basic Financial Statements

Cash Basis Statement of Activities and Net Position

As of and for the year ended June 30, 2015

	Disbursements	Program Receipts			Net (Disbursements) Receipts and Changes in Cash Basis Net Assets		
		Charges for Service	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest	Governmental Activities	Business Type Activities	Total
Functions / Programs:							
Governmental activities:							
Public safety	\$ 496,818	171,186	37,520	9,910	(278,202)	-	(278,202)
Public works	227,823	121,271	171,717	-	65,165	-	65,165
Culture and recreation	162,783	49,713	26,989	-	(86,081)	-	(86,081)
Community and economic development	210,547	-	-	15	(210,532)	-	(210,532)
General government	296,945	8,015	-	-	(288,930)	-	(288,930)
Debt service	1,048,422	-	-	3	(1,048,419)	-	(1,048,419)
Capital projects	978,622	-	-	454,550	(524,072)	-	(524,072)
Total governmental activities	3,421,960	350,185	236,226	464,478	(2,371,071)	-	(2,371,071)
Business type activities:							
Sewer	339,521	351,634	-	-	-	12,113	12,113
Total business type activities	339,521	351,634	-	-	-	12,113	12,113
Total	\$ 3,761,481	701,819	236,226	464,478	(2,371,071)	12,113	(2,358,958)
General Receipts and Transfers:							
Property and other city tax levied for:							
General purposes					379,725	-	379,725
Debt service					284,865	-	284,865
Tax increment financing					1,178,971	-	1,178,971
Local option sales tax					138,313	-	138,313
Hotel/Motel tax					96,807	-	96,807
Grants and contributions not restricted to specific purposes					79,500	-	79,500
Unrestricted interest on investments					543	946	1,489
Bond and note proceeds					675,000	-	675,000
Miscellaneous					112,631	411	113,042
Sale of capital assets					1,731	-	1,731
Total general receipts and transfers					2,948,086	1,357	2,949,443
Change in cash basis net position					577,015	13,470	590,485
Cash basis net position beginning of year					2,152,771	854,807	3,007,578
Cash basis net position end of year					\$ 2,729,786	868,277	3,598,063
Cash Basis Net Position							
Restricted:							
Nonexpendable:							
Cemetery perpetual care					\$ 70,908	-	70,908
Expendable:							
Urban renewal purposes					443,487	-	443,487
Debt service					56,537	141,197	197,734
Capital projects					522,898	-	522,898
Other purposes					519,553	-	519,553
Unrestricted					1,116,403	727,080	1,843,483
Total cash basis net position					\$ 2,729,786	868,277	3,598,063

See notes to financial statements.

City of Stuart

Exhibit B

Statement of Cash Receipts, Disbursements
and Changes in Cash Balances
Governmental Funds

As of and for the year ended June 30, 2015

	General	Special Revenue Urban Renewal Tax Increment	Debt Service	Capital Projects	Nonmajor	Total
Receipts:						
Property tax	\$ 270,097	-	284,865	-	109,628	664,590
Tax increment financing	-	1,178,971	-	-	-	1,178,971
Other city tax	235,120	-	-	-	-	235,120
Licenses and permits	8,015	-	-	-	-	8,015
Use of money and property	17,203	15	3	125	306	17,652
Intergovernmental	43,404	-	-	454,425	171,363	669,192
Charges for service	316,707	-	-	-	-	316,707
Special assessments	-	-	-	-	4,884	4,884
Miscellaneous	225,573	-	-	35	1,505	227,113
Total receipts	1,116,119	1,178,986	284,868	454,585	287,686	3,322,244
Disbursements:						
Operating:						
Public safety	429,579	-	-	-	67,239	496,818
Public works	168,494	-	-	-	59,329	227,823
Culture and recreation	152,395	-	-	-	10,388	162,783
Community and economic development	-	210,547	-	-	-	210,547
General government	255,901	-	-	-	41,044	296,945
Debt service	-	-	1,048,422	-	-	1,048,422
Capital projects	-	-	-	978,622	-	978,622
Total disbursements	1,006,369	210,547	1,048,422	978,622	178,000	3,421,960
Excess (deficiency) of receipts over (under) disbursements	109,750	968,439	(763,554)	(524,037)	109,686	(99,716)
Other financing sources (uses):						
Bond and note proceeds	-	-	-	675,000	-	675,000
Sale of capital assets	1,731	-	-	-	-	1,731
Transfers in	-	-	769,220	-	35,000	804,220
Transfers out	(35,000)	(695,350)	-	(10,688)	(63,182)	(804,220)
Total other financing sources (uses)	(33,269)	(695,350)	769,220	664,312	(28,182)	676,731
Change in cash balances	76,481	273,089	5,666	140,275	81,504	577,015
Cash balances beginning of year, as restated	1,039,922	170,398	50,871	382,623	508,957	2,152,771
Cash balances end of year	\$ 1,116,403	443,487	56,537	522,898	590,461	2,729,786
Cash Basis Fund Balances						
Nonspendable:						
Cemetery perpetual care	\$ -	-	-	-	70,908	70,908
Restricted for:						
Urban renewal purposes	-	443,487	-	-	-	443,487
Debt service	-	-	56,537	-	-	56,537
Capital projects	-	-	-	522,898	-	522,898
Other purposes	-	-	-	-	519,553	519,553
Unassigned	1,116,403	-	-	-	-	1,116,403
Total cash basis fund balances	\$ 1,116,403	443,487	56,537	522,898	590,461	2,729,786

See notes to financial statements.

City of Stuart

Exhibit C

Statement of Cash Receipts, Disbursements
and Changes in Cash Balances
Proprietary Funds

As of and for the year ended June 30, 2015

	<u>Enterprise</u>
	<u>Sewer</u>
Operating receipts:	
Charges for service	\$ 351,634
Total operating receipts	<u>351,634</u>
Operating disbursements:	
Business type activities	122,345
Total operating disbursements	<u>122,345</u>
Excess of operating receipts over operating disbursements	<u>229,289</u>
Non-operating receipts (disbursements):	
Interest on investments	946
Miscellaneous	411
Debt service	(159,093)
Capital projects	(58,083)
Net non-operating receipts (disbursements)	<u>(215,819)</u>
Change in cash balances	13,470
Cash balances beginning of year	<u>854,807</u>
Cash balances end of year	<u>\$ 868,277</u>
Cash Basis Fund Balances	
Restricted for debt service	\$ 141,197
Unrestricted	<u>727,080</u>
Total cash basis fund balances	<u>\$ 868,277</u>

See notes to financial statements.

City of Stuart

Notes to Financial Statements

June 30, 2015

(1) **Summary of Significant Accounting Policies**

The City of Stuart (City) is a political subdivision of the State of Iowa located in Adair and Guthrie Counties. It was first incorporated in 1876 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens including public safety, public works, culture and recreation, community and economic development, and general governmental services. The City also provides sewer for its citizens.

A. Reporting Entity

Except as discussed below, for financial reporting purposes, the City has included all funds, organizations, agencies, boards, commissions and authorities. The City has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the City.

These financial statements present the City (the primary government) and exclude the City's component units. The component units discussed below are not included in the City's reporting entity although their operational or financial relationships with the City are significant.

Excluded Component Units

The Stuart Municipal Utilities was established under Chapter 388 of the Code of Iowa, is legally separate from the City, but has the potential to provide specific benefits to or impose specific burdens on the City. The Municipal Utilities is governed by a five-member board appointed by the Mayor and approved by the City Council. The Utilities' operating budget is subject to the approval of the City Council. Complete financial statements of the component unit, which will issue separate financial statements, can be obtained from the Municipal Utilities administrative office.

The Stuart Library Foundation was established under Chapter 504 of the Code of Iowa, is legally separate from the City, but has the potential to provide specific benefits to or impose specific financial burdens on the City. The purpose of the Stuart Library Foundation is to support the activities of the Stuart, Iowa Public Library.

Jointly Governed Organizations

The City also participates in several jointly governed organizations that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of the following boards and commissions: Adair and Guthrie County Assessor's Conference Board, Adair County Landfill Association, Adair and Guthrie County Emergency Management Commissions and the Adair and Guthrie County Joint E911 Service Boards.

B. Basis of Presentation

Government-wide Financial Statement - The Cash Basis Statement of Activities and Net Position reports information on all of the nonfiduciary activities of the City. For the most part, the effect of interfund activity has been removed from this statement. Governmental activities, which are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for service.

The Cash Basis Statement of Activities and Net Position presents the City's nonfiduciary net position. Net position is reported in the following categories/components:

Nonexpendable restricted net position is subject to externally imposed stipulations which require the cash balance to be maintained permanently by the City, including the City's Permanent Fund.

Expendable restricted net position results when constraints placed on the use of cash balances are either externally imposed or imposed by law through constitutional provisions or enabling legislation. Enabling legislation did not result in any restricted net position.

Unrestricted net position consists of cash balances not meeting the definition of the preceding categories. Unrestricted net position is often subject to constraints imposed by management which can be removed or modified.

The Cash Basis Statement of Activities and Net Position demonstrates the degree to which the direct disbursements of a given function are offset by program receipts. Direct disbursements are those clearly identifiable with a specific function. Program receipts include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and 2) grants, contributions and interest on investments restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program receipts are reported instead as general receipts.

Fund Financial Statements - Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor governmental funds.

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax receipts from general and emergency levies and other receipts not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating disbursements, the fixed charges and the capital improvement costs that are not paid from other funds.

The Special Revenue, Urban Renewal Tax Increment Fund is used to account for tax increment financing collections and the repayment of tax increment financing indebtedness.

The Debt Service Fund is utilized to account for property tax and other receipts to be used for the payment of interest and principal on the City's general long-term debt.

The Capital Projects Fund is used to account for all resources used in the acquisition and construction of capital facilities.

The City reports the following major proprietary fund:

The Enterprise, Sewer Fund accounts for the operation and maintenance of the City's waste water treatment and sanitary sewer system.

C. Measurement Focus and Basis of Accounting

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles.

Under the terms of grant agreements, the City funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants and general receipts. Thus, when program disbursements are paid, there is both restricted and unrestricted cash basis net position available to finance the program. It is the City's policy to first apply cost-reimbursement grant resources to such programs followed by categorical block grants and then by general receipts.

When a disbursement in governmental funds can be paid using either restricted or unrestricted resources, the City's policy is generally to first apply the disbursement toward restricted fund balance and then to less-restrictive classifications – committed, assigned and then unassigned fund balances.

Proprietary funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with proprietary fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

D. Governmental Cash Basis Fund Balances

In the governmental fund financial statements, cash basis fund balances are classified as follows:

Nonspendable – Amounts which cannot be spent because they are legally or contractually required to be maintained intact.

Restricted – Amounts restricted to specific purposes when constraints placed on the use of the resources are either externally imposed by creditors, grantors, or state or federal laws or imposed by law through constitutional provisions or enabling legislation.

Unassigned – All amounts not included in the preceding classifications.

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Other Information. During the year ended June 30, 2015, disbursements exceeded the amounts budgeted in the debt service function.

(2) **Cash and Pooled Investments**

The City's deposits in banks at June 30, 2015 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The City is authorized by statute to invest public funds in the obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The City had no investments meeting the disclosure requirements of Government Accounting Standards Board Statement No. 3, as amended by Statement No. 40.

Interest rate risk – The City's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) to instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days, but the maturities shall be consistent with the needs and use of the City.

(3) **Bonds and Notes Payable and Other Debt**

Annual debt service requirements to maturity for general obligation bonds and notes, revenue bonds and other debt are as follows:

Year Ending June 30,	Annual Appropriation General Obligation Bonds and Notes		General Obligation Bonds and Notes	
	Principal	Interest	Principal	Interest
2016	\$ 512,000	328,822	195,000	19,975
2017	688,000	311,858	195,000	17,950
2018	709,000	286,645	160,000	15,685
2019	730,000	260,075	95,000	13,925
2020	551,000	232,016	95,000	12,595
2021-2025	3,595,000	839,351	180,000	47,925
2026-2030	1,360,000	120,570	205,000	24,045
2031	-	-	45,000	1,283
	<u>\$8,145,000</u>	<u>2,379,337</u>	<u>1,170,000</u>	<u>153,383</u>

Year Ending June 30,	Sewer Revenue Bonds		Other Debt		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2016	\$ 120,000	39,003	30,000	-	857,000	387,800
2017	126,000	35,202	30,000	-	1,039,000	365,010
2018	127,000	30,827	30,000	-	1,026,000	333,157
2019	134,000	26,422	10,000	-	969,000	300,422
2020	140,000	21,458	-	-	786,000	266,069
2021-2025	249,000	66,810	-	-	4,024,000	954,086
2026-2030	293,000	26,880	-	-	1,858,000	171,495
2031	-	-	-	-	45,000	1,283
	<u>\$ 1,189,000</u>	<u>246,602</u>	<u>100,000</u>	<u>-</u>	<u>10,604,000</u>	<u>2,779,322</u>

The Code of Iowa requires principal and interest on general obligation bonds be paid from the Debt Service Fund. However, \$706,038 of general obligation bonds and notes principal and interest was paid from the Special Revenue, Urban Renewal Tax Increment Fund and the Capital Projects Fund during the year ended June 30, 2015. Appropriate adjustments were made for financial statement purposes.

Annual Appropriation Refunding Bonds

In prior years, the City has defeased a bond issue by creating a separate irrevocable trust fund. New debt has been issued and the proceeds have been used to purchase U.S. government securities that were placed in trust funds. The investments and fixed earnings from the investments are sufficient to fully service the defeased debt until the debt is called or matures. For financial reporting purposes, the debt has been considered defeased and therefore removed from the Schedule of Indebtedness. As of June 30, 2015, the amount of defeased debt outstanding but removed from the Schedule of Indebtedness is \$3,330,000.

Annual Appropriation General Obligation Bonds and Notes

The future principal and interest payment amounts identified in the annual appropriation general obligation bonds and notes column are based on the assumption that the City will appropriate funds every year to meet the above obligations. However, if the City does not appropriate funds for a year, the City's obligations in relation to the bonds and notes principal and interest shall terminate and become null and void on the last day of the fiscal year for which the necessary funds were appropriated.

Revenue Bonds

The City has pledged future sewer customer receipts, net of specified operating disbursements, to repay \$1,770,000 of sewer revenue bonds issued in December, 2009. Proceeds from the bonds provided financing for sewer capital project construction and to pay off an old bond issue. The bonds are payable solely from sewer customer net receipts and are payable through 2030. Annual principal and interest payments on the bonds are expected to require less than 69% of net receipts. The total principal and interest remaining to be paid on the bonds is \$1,435,062. For the current year, principal and interest paid and total customer net receipts were \$156,610 and \$229,289, respectively.

The resolutions providing for the issuance of the revenue bonds include the following provisions:

- (a) The bonds will only be redeemed from the future earnings of the enterprise activity and the bond holders hold a lien on the future earnings of the funds.
- (b) Sufficient monthly transfers shall be made to a sewer revenue bond sinking account within the Enterprise Fund for the purpose of making the note principal and interest payments when due.
- (c) A reserve fund should be maintained at an amount of \$94,000.
- (d) User rates shall be established at a level which produces and maintains net receipts at a level not less than 110% for the sewer revenue bonds of the amount of principal and interest on the bonds falling due in the same year.

The City did not properly fund the sewer revenue bond sinking account as required.

Other Debt

On November 11, 2008, the City entered into a note agreement with CIPCO/USDA for financing the cost of improvements at the aquatic center for \$300,000 at 0% interest. Principal payments of \$2,500 per month are due monthly beginning December 14, 2008. The balance owed at June 30, 2015 is \$100,000.

(4) Pension Plan

Plan Description - IPERS membership is mandatory for employees of the City, except for those covered by another retirement system. Employees of the City are provided with pensions through a cost-sharing multiple employer defined benefit pension plan administered by Iowa Public Employees' Retirement System (IPERS). IPERS issues a stand-alone financial report which is available to the public by mail at 7401 Register Drive P.O. Box 9117, Des Moines, Iowa 50306-9117 or at www.ipers.org.

IPERS benefits are established under Iowa Code chapter 97B and the administrative rules thereunder. Chapter 97B and the administrative rules are the official plan documents. The following brief description is provided for general informational purposes only. Refer to the plan documents for more information.

Pension Benefits – A regular member may retire at normal retirement age and receive monthly benefits without an early-retirement reduction. Normal retirement age is age 65, anytime after reaching age 62 with 20 or more years of covered employment, or when the member's years of service plus the member's age at the last birthday equals or exceeds 88, whichever comes first. (These qualifications must be met on the member's first month of entitlement to benefits.) Members cannot begin receiving retirement benefits before age 55. The formula used to calculate a Regular member's monthly IPERS benefit includes:

- A multiplier (based on years of service).
- The member's highest five-year average salary. (For members with service before June 30, 2012, the highest three-year average salary as of that date will be used if it is greater than the highest five-year average salary.)

Protection occupation members may retire at normal retirement age, which is generally at age 55. Protection occupation members may retire any time after reaching age 50 with 22 or more years of covered employment.

The formula used to calculate a protection occupation member's monthly IPERS' benefit includes:

- 60% of average salary after completion of 22 years of service, plus an additional 1.5% of average salary for years of service greater than 22 but not more than 30 years of service.
- The member's highest three-year average salary.

If a member retires before normal retirement age, the member's monthly retirement benefit will be permanently reduced by an early-retirement reduction. The early-retirement reduction is calculated differently for service earned before and after July 1, 2012. For service earned before July 1, 2012, the reduction is 0.25 percent for each month that the member receives benefits before the member's earliest normal retirement age. For service earned starting July 1, 2012, the reduction is 0.50 percent for each month that the member receives benefits before age 65.

Generally, once a member selects a benefit option, a monthly benefit is calculated and remains the same for the rest of the member's lifetime. However, to combat the effects of inflation, retirees who began receiving benefits prior to July 1990 receive a guaranteed dividend with their regular November benefit payments.

Disability and Death Benefits - A vested member who is awarded federal Social Security disability or Railroad Retirement disability benefits is eligible to claim IPERS benefits regardless of age. Disability benefits are not reduced for early retirement. If a member dies before retirement, the member's beneficiary will receive a lifetime annuity or a lump-sum payment equal to the present actuarial value of the member's accrued benefit or calculated with a set formula, whichever is greater. When a member dies after retirement, death benefits depend on the benefit option the member selected at retirement.

Contributions - Effective July 1, 2012, as a result of a 2010 law change, the contribution rates are established by IPERS following the annual actuarial valuation, which applies IPERS' Contribution Rate Funding Policy and Actuarial Amortization Method. Statute limits the amount rates can increase or decrease each year to 1 percentage point. IPERS Contribution Rate Funding Policy requires that the actuarial contribution rate be determined using the "entry age normal" actuarial cost method and the actuarial assumptions and methods approved by the IPERS Investment Board. The actuarial contribution rate covers normal cost plus the unfunded actuarial liability payment based on a 30-year amortization period. The payment to amortize the unfunded actuarial liability is determined as a level percentage of payroll, based on the Actuarial Amortization Method adopted by the Investment Board.

In fiscal year 2015, pursuant to the required rate, Regular members contributed 5.95 percent of pay and the City contributed 8.93 percent for a total rate of 14.88 percent. Protection occupation members contributed 6.76 percent of pay and the City contributed 10.14 percent for a total rate of 16.90 percent.

The City's contributions to IPERS for the year ended June 30, 2015 were \$83,775.

Collective Net Pension Liabilities, Collective Pension Expense, and Collective Deferred Outflows of Resources and Collective Deferred Inflows of Resources Related to Pensions – At June 30, 2015, the City's liability for its proportionate share of the collective net pension liability totaled \$283,553. The collective net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the collective net pension liability was determined by an actuarial valuation as of that date. The City's proportion of the collective net pension liability was based on the City's share of contributions to the pension plan relative to the contributions of all IPERS participating employers. At June 30, 2014, the City's proportion was 0.007150 percent, which was a decrease of 0.000817 from its proportion measured as of June 30, 2013.

For the year ended June 30, 2015 the City collective pension expense, collective deferred outflows and collective deferred inflows totaled \$31,994, \$19,155 and \$202,402 respectively.

Actuarial Assumptions - The total pension liability in the June 30, 2014 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Rate of Inflation (effective June 30, 2014)	3.00 percent per annum.
Rates of salary increase (effective June 30, 2010)	4.00 to 17.00 percent, average, including inflation. Rates vary by membership group.
Long-term investment rate of return (effective June 30, 1996)	7.50 percent per annum, compounded annually, net of investment expense, including inflation.

The actuarial assumptions used in the June 30, 2014 valuation were based on the results of actuarial experience studies with dates corresponding to those listed above.

Mortality rates were based on the RP-2000 Mortality Table for Males or Females, as appropriate, with adjustments for mortality improvements based on Scale AA.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Asset Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
US Equity	23 %	6.31
Non US Equity	15	6.76
Private Equity	13	11.34
Real Estate	8	3.52
Core Plus Fixed Income	28	2.06
Credit Opportunities	5	3.67
TIPS	5	1.92
Other Real Assets	2	6.27
Cash	1	(0.69)
Total	<u>100 %</u>	

Discount Rate - The discount rate used to measure the total pension liability was 7.5 percent. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the contractually required rate and that contributions from the City will be made at contractually required rates, actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payment to determine the total pension liability.

Sensitivity of the City's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate - The following presents the City's proportionate share of the net pension liability calculated using the discount rate of 7.5 percent, as well as what the City's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.5 percent) or 1-percentage-point higher (8.5 percent) than the current rate.

	1% Decrease (6.5%)	Discount Rate (7.5%)	1% Increase (8.5%)
City's proportionate share of the net pension liability	\$ 726,281	283,553	(89,961)

Pension Plan Fiduciary Net Position - Detailed information about the pension plan's fiduciary net position is available in the separately issued IPERS financial report which is available on IPERS' website at www.ipers.org.

(5) **Other Postemployment Benefits (OPEB)**

Plan Description – The City operates a single-employer health benefit plan which provides medical/prescription drug benefits for employees, retirees and their spouses. There are 17 active and no retired members in the plan. Retired participants must be age 55 or older at retirement.

The medical/prescription drug benefits are provided through a fully-insured plan with Line Construction Benefit Fund. Retirees under age 65 pay the same premium for the medical/prescription drug benefit as active employees.

Funding Policy – The contribution requirements of plan members are established and may be amended by the City. The City currently finances the benefit plan on a pay-as-you-go basis. The most recent active member monthly premiums for the City and the plan members are \$1,087.50 for all types of coverage. For the year ended June 30, 2015, the City contributed \$202,365, and plan members eligible for benefits contributed \$0 to the plan.

(6) **Interfund Transfers**

The detail of interfund transfers for the year ended June 30, 2015 is as follows:

Transfer to	Transfer from	Amount
Special Revenue:		
Employee Benefits	General	\$ 35,000
Debt Service	Special Revenue:	
	Urban Renewal Tax Increment	695,350
	Road Use Tax	63,182
	Capital Projects	10,688
		<u>769,220</u>
Total		<u>\$ 804,220</u>

Transfers generally move resources from the fund statutorily required to collect the resources to the fund statutorily required to disburse the resources.

(7) **Risk Management**

The City is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The City assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(8) Contingency

The City participates in a number of Federal and State grant/loan programs. These programs are subject to program compliance audits by the grantors or their representatives. Entitlement to these resources is generally conditional upon compliance with the terms and conditions of grant and loan agreements and applicable federal and state regulations, including the expenditure of resources for allowable purposes. Any disallowance resulting from a federal or state audit may become a liability to the City. The City's management believes such revisions or disallowances, if any, will not be material to the City.

(9) Commitments

The City entered into an agreement with a contractor for \$690,023 for downtown facade improvements. As of June 30, 2015, approximately \$587,000 remains to be paid on this contract. These costs will be paid for as work progresses. It is anticipated that this project will be completed in fiscal year 2016. The City intends to pay for these costs from a federal grant and from existing cash reserves.

(10) Development Agreements

The City has entered into various development agreements for urban renewal projects. The agreements require the City to rebate portions of the incremental property tax paid by the developer in exchange for the construction or improvement of buildings. For housing related development agreements, each payment represents the incremental property tax received by the City with respect to the incremental value of the property, reduced by the minimum amount required by Section 403.22 of the Code of Iowa. The related low and moderate set aside amount shall be retained by the City for the purpose of providing assistance to low and moderate income families. The remaining total to be paid by the City under the agreements is not to exceed \$5,948,396.

The City rebated \$206,685 during fiscal year 2015, for a total of \$480,310 of incremental property tax rebated under the agreements. The outstanding balance of the agreements at June 30, 2015 with fixed dollar commitments was \$439,433. The outstanding balance of the agreements at June 30, 2015 subject to annual appropriation was \$5,508,963.

(11) Subsequent Events

The City has evaluated all subsequent events through January 28, 2016, the date the financial statements were available to be issued.

(12) Restatements

The beginning cash balances were restated to reflect the proper balances and the proper classification between accounts and funds. The restatements are as follows:

	Balances at July 1, 2014, as previously reported	Restatements	Balances at July 1, 2014 as restated
Governmental activities net position	\$ 6,139,241	(3,986,470)	2,152,771
Component unit net position:			
Stuart Municipal Utilities	2,071,267	(2,071,267)	-
Special Revenue Funds:			
Special Assessment	-	144,661	144,661
Debt Service Fund	4,182,002	(4,131,131)	50,871

Other Information

City of Stuart

Budgetary Comparison Schedule
of Receipts, Disbursements, and Changes in Balances -
Budget and Actual (Cash Basis) - All Governmental Funds and Proprietary Funds

Other Information

Year ended June 30, 2015

	Governmental Funds Actual	Proprietary Funds Actual	(Unaudited) Component Unit		Total	Budgeted Amounts		Final to Total Variance
			Stuart	Municipal Utilities		Original	Final	
Receipts:								
Property tax	\$ 664,590	-	-	-	664,590	654,096	654,096	10,494
Tax increment financing	1,178,971	-	-	-	1,178,971	957,590	957,590	221,381
Other city tax	235,120	-	-	-	235,120	219,362	219,362	15,758
Licenses and permits	8,015	-	-	-	8,015	-	-	8,015
Use of money and property	17,652	946	-	9,033	27,631	500	500	27,131
Intergovernmental	669,192	-	-	-	669,192	763,327	763,327	(94,135)
Charges for service	316,707	351,634	-	2,371,460	3,039,801	3,238,365	3,238,365	(198,564)
Special assessments	4,884	-	-	-	4,884	-	-	4,884
Miscellaneous	227,113	411	-	300,941	528,465	35,000	235,000	293,465
Total receipts	3,322,244	352,991	-	2,681,434	6,356,669	5,868,240	6,068,240	288,429
Disbursements:								
Public safety	496,818	-	-	-	496,818	535,583	632,583	135,765
Public works	227,823	-	-	-	227,823	372,548	444,548	216,725
Culture and recreation	162,783	-	-	-	162,783	130,515	181,515	18,732
Community and economic development	210,547	-	-	-	210,547	957,590	957,590	747,043
General government	296,945	-	-	-	296,945	210,534	335,534	38,589
Debt service	1,048,422	-	-	-	1,048,422	346,991	346,991	(701,431)
Capital projects	978,622	-	-	-	978,622	500,000	1,450,000	471,378
Business type activities	-	339,521	-	2,502,915	2,842,436	2,824,410	3,528,410	685,974
Total disbursements	3,421,960	339,521	-	2,502,915	6,264,396	5,878,171	7,877,171	1,612,775
Excess (deficiency) of receipts over (under) disbursements	(99,716)	13,470	-	178,519	92,273	(9,931)	(1,808,931)	1,901,204
Other financing sources, net	676,731	-	-	-	676,731	-	1,116,171	(439,440)
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	577,015	13,470	-	178,519	769,004	(9,931)	(692,760)	1,461,764
Balances beginning of year	2,152,771	854,807	-	2,071,267	5,078,845	5,891,907	5,891,907	(813,062)
Balances end of year	\$ 2,729,786	868,277	-	2,249,786	5,847,849	5,881,976	5,199,147	648,702

See accompanying independent auditor's report.

City of Stuart

Notes to Other Information - Budgetary Reporting

June 30, 2015

The budgetary comparison is presented in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds except the Internal Service Fund. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon nine major classes of disbursements known as functions, not by fund. These nine functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, and business type activities. Function disbursements required to be budgeted include disbursements for the General Fund, the Special Revenue Funds, the Debt Service Fund, the Capital Projects Funds, the Permanent Funds and the Enterprise Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, one budget amendment increased budgeted disbursements by \$1,999,000. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2015, disbursements exceeded the amounts budgeted in the debt service function.

City of Stuart

Schedule of the City's Proportionate Share of the Net Pension Liability

Iowa Public Employees' Retirement System

Last Fiscal Year*

(In Thousands)

Other Information

	<u>2015</u>
City's proportion of the net pension liability	0.007150%
City's proportionate share of the net pension liability	\$ 284
City's covered employee payroll	\$ 840
City's proportionate share of the net pension liability as a percentage of its covered-employee payroll	33.81%
Plan fiduciary net position as a percentage of the total pension liability	87.61%

* The amounts presented for each fiscal year were determined as of June 30.

See accompanying independent auditor's report.

Note: GASB Statement No. 68 requires ten years of information to be presented in this table. However, until a full 10-year trend is compiled, the City will present information for those years for which information is available.

City of Stuart

Schedule of City Contributions

Iowa Public Employees' Retirement System
Last 10 Fiscal Years
(In Thousands)

Other Information

	2015	2014	2013
Statutorily required contribution	\$ 84	78	72
Contributions in relation to the statutorily required contribution	(84)	(78)	(72)
Contribution deficiency (excess)	\$ -	-	-
City's covered-employee payroll	\$ 899	840	785
Contributions as a percentage of covered-employee payroll	9.32%	9.29%	9.18%

Note: GASB Statement No. 68 requires ten years of information to be presented in this table. However, until a full 10-year trend is compiled, the City will present information for those years for which information is available.

See accompanying independent auditor's report.

City of Stuart

Notes to Other Information – Pension Liability

Year ended June 30, 2015

Changes of benefit terms:

Legislation passed in 2010 modified benefit terms for current Regular members. The definition of final average salary changed from the highest three to the highest five years of covered wages. The vesting requirement changed from four years of service to seven years. The early retirement reduction increased from 3 percent per year measured from the member's first unreduced retirement age to a 6 percent reduction for each year of retirement before age 65.

In 2008, legislative action transferred four groups – emergency medical service providers, county jailers, county attorney investigators, and National Guard installation security officers – from Regular membership to the protection occupation group for future service only.

Benefit provisions for sheriffs and deputies were changed in the 2004 legislative session. The eligibility for unreduced retirement benefits was lowered from age 55 by one year each July 1 (beginning in 2004) until it reached age 50 on July 1, 2008. The years of service requirement remained at 22 or more. Their contribution rates were also changed to be shared 50-50 by the employee and employer, instead of the previous 40-60 split.

Changes of assumptions:

The 2014 valuation implemented the following refinements as a result of a quadrennial experience study:

- Decreased the inflation assumption from 3.25 percent to 3.00 percent
- Decreased the assumed rate of interest on member accounts from 4.00 percent to 3.75 percent per year.
- Adjusted male mortality rates for retirees in the Regular membership group.
- Reduced retirement rates for sheriffs and deputies between the ages of 55 and 64.
- Moved from an open 30 year amortization period to a closed 30 year amortization period for the UAL beginning June 30, 2014. Each year thereafter, changes in the UAL from plan experience will be amortized on a separate closed 20 year period.

The 2010 valuation implemented the following refinements as a result of a quadrennial experience study:

- Adjusted retiree mortality assumptions.
- Modified retirement rates to reflect fewer retirements.
- Lowered disability rates at most ages.
- Lowered employment termination rates.
- Generally increased the probability of terminating members receiving a deferred retirement benefit.
- Modified salary increase assumptions based on various service duration.

The 2007 valuation adjusted the application of the entry age normal cost method to better match projected contributions to the projected salary stream in the future years. It also included in the calculation of the UAL amortization payments the one-year lag between the valuation date and the effective date of the annual actuarial contribution rate.

The 2006 valuation implemented the following refinements as a result of a quadrennial experience study:

- Adjusted salary increase assumptions to service based assumptions.
- Decreased the assumed interest rate credited on employee contributions from 4.25 percent to 4.00 percent.
- Lowered the inflation assumption from 3.50 percent to 3.25 percent.
- Lowered disability rates for sheriffs and deputies and protection occupation members.

Supplementary Information

City of Stuart

Schedule 1

Schedule of Cash Receipts, Disbursements
and Changes in Cash Balances
Nonmajor Governmental Funds

As of and for the year ended June 30, 2015

	Special Revenue				Permanent	
	Road Use Tax	Employee Benefits	Fire/Rescue	Special Assessment	Cemetery Perpetual Care	Total
Receipts:						
Property tax	\$ -	109,628	-	-	-	109,628
Use of money and property	94	90	-	34	88	306
Intergovernmental	171,363	-	-	-	-	171,363
Special assessments	-	-	-	4,884	-	4,884
Miscellaneous	-	-	575	-	930	1,505
Total receipts	171,457	109,718	575	4,918	1,018	287,686
Disbursements:						
Operating:						
Public safety	-	66,599	640	-	-	67,239
Public works	36,123	23,206	-	-	-	59,329
Culture and recreation	-	10,388	-	-	-	10,388
General government	-	41,044	-	-	-	41,044
Total disbursements	36,123	141,237	640	-	-	178,000
Excess (deficiency) of receipts over (under) disbursements	135,334	(31,519)	(65)	4,918	1,018	109,686
Other financing sources (uses):						
Transfers in	-	35,000	-	-	-	35,000
Transfers out	(63,182)	-	-	-	-	(63,182)
Total other financing sources (uses)	(63,182)	35,000	-	-	-	(28,182)
Change in cash balances	72,152	3,481	(65)	4,918	1,018	81,504
Cash balances beginning of year, as restated	178,061	116,137	208	144,661	69,890	508,957
Cash balances end of year	\$ 250,213	119,618	143	149,579	70,908	590,461
Cash Basis Fund Balances						
Nonspendable:						
Cemetery perpetual care	\$ -	-	-	-	70,908	70,908
Restricted for other purposes	250,213	119,618	143	149,579	-	519,553
Total cash basis fund balances	\$ 250,213	119,618	143	149,579	70,908	590,461

See accompanying independent auditor's report.

City of Stuart

Schedule 2

Schedule of Indebtedness

Year ended June 30, 2015

Obligation	Date of Issue	Interest Rates	Amount Originally Issued	Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid	Interest Due and Unpaid
Annual Appropriation General Obligation Bonds and Notes -									
Annual appropriation capital loan notes	December 18, 2007	4.75-4.95%	\$ 1,700,000	1,350,000	-	75,000	1,275,000	64,765	-
Annual appropriation refunding bonds	June 28, 2012	1.50-4.15%	4,880,000	4,320,000	-	275,000	4,045,000	136,870	-
Annual appropriation corporate purpose and refunding bonds	August 27, 2013	5.00%	2,275,000	2,275,000	-	125,000	2,150,000	113,750	-
Annual appropriation fire truck acquisition note	October 28, 2014	3.50%	175,000	-	175,000	-	175,000	3,625	-
Taxable general obligation annual appropriation urban renewal bond	December 10, 2014	4.50%	500,000	-	500,000	-	500,000	10,688	-
Total				<u>\$ 7,945,000</u>	<u>675,000</u>	<u>475,000</u>	<u>8,145,000</u>	<u>329,698</u>	<u>-</u>
General Obligation Bonds and Notes -									
Municipal building bonds	August 30, 2011	1.90%	\$ 165,000	105,000	-	35,000	70,000	1,995	-
Corporate purpose and refunding bonds	December 4, 2012	0.70-2.85%	1,255,000	1,255,000	-	155,000	1,100,000	19,730	-
Total				<u>\$ 1,360,000</u>	<u>-</u>	<u>190,000</u>	<u>1,170,000</u>	<u>21,725</u>	<u>-</u>
Sewer Revenue Bonds -									
Sewer Revenue Bond	December 9, 2009	3.00%	\$ 1,060,000	793,000	-	39,000	754,000	23,790	-
Sewer Revenue Bonds	December 15, 2009	2.15-4.05%	710,000	510,000	-	75,000	435,000	18,820	-
Total				<u>\$ 1,303,000</u>	<u>-</u>	<u>114,000</u>	<u>1,189,000</u>	<u>42,610</u>	<u>-</u>
Other Debt -									
CIPCO/USDA	November 14, 2008	0.00%	\$ 300,000	130,000	-	30,000	100,000	-	-

See accompanying independent auditor's report.

City of Stuart
Bond and Note Maturities
June 30, 2015

Schedule 3

Annual Appropriation General Obligation Bonds and Notes															
Year Ending June 30,	Annual Appropriation Capital Loan Notes			Annual Appropriation Refunding Bonds			Annual Appropriation Corporate Purpose and Refunding Bonds			Annual Appropriation Fire Truck Acquisition Note		Taxable General Obligation Annual Appropriation Urban Renewal Bond			
	Issued December 18, 2007			Issued June 28, 2012			Issued August 27, 2013			Issued October 28, 2014		Issued December 10, 2014			
	Interest Rates	Amount		Interest Rates	Amount		Interest Rates	Amount		Interest Rates	Amount	Interest Rates	Amount		
	Total			Total			Total			Total		Total			
2016	4.95%	\$ 80,000		2.10%	\$ 285,000		5.00%	\$ 125,000		3.50%	\$ 22,000	-	\$ 512,000		
2017	4.95%	85,000		2.25%	290,000		5.00%	125,000		3.50%	23,000	4.50%	165,000		
2018	4.95%	90,000		2.45%	300,000		5.00%	130,000		3.50%	24,000	4.50%	165,000		
2019	4.95%	95,000		2.65%	305,000		5.00%	135,000		3.50%	25,000	4.50%	170,000		
2020	4.85%	100,000		2.95%	290,000		5.00%	135,000		3.50%	26,000	-	730,000		
2021	4.60%	100,000		3.15%	295,000		5.00%	120,000		3.50%	27,000	-	551,000		
2022	4.65%	105,000		3.35%	285,000		5.00%	125,000		3.50%	28,000	-	542,000		
2023	4.70%	110,000		3.30%	290,000		5.00%	130,000		-	-	-	543,000		
2024	4.75%	120,000		3.60%	305,000		5.00%	135,000		-	-	-	530,000		
2025	4.75%	125,000		3.75%	305,000		5.00%	990,000		-	-	-	560,000		
2026	4.75%	130,000		3.90%	325,000		-	-		-	-	-	1,420,000		
2027	4.75%	135,000		3.95%	340,000		-	-		-	-	-	455,000		
2028	-	-		4.05%	210,000		-	-		-	-	-	475,000		
2029	-	-		4.15%	220,000		-	-		-	-	-	210,000		
		\$ 1,275,000			\$ 4,045,000			\$ 2,150,000			\$ 175,000		\$ 500,000		
													8,145,000		
General Obligation Bonds and Notes															
Year Ending June 30,	Municipal Building Bonds Issued August 30, 2011			Corporate Purpose and Refunding Bonds Issued December 4, 2012			Sewer Revenue Bonds Issued December 9, 2009			Sewer Revenue Bonds Issued December 15, 2009					
	Interest Rates			Interest Rates			Interest Rates			Interest Rates					
	Amount			Amount			Amount			Amount					
	Total			Total			Total			Total					
2016	\$ 35,000			\$ 160,000			\$ 40,000			\$ 80,000					
2017	35,000			160,000			41,000			85,000					
2018	-			160,000			42,000			85,000					
2019	-			95,000			44,000			90,000					
2020	-			95,000			45,000			95,000					
2021	-			35,000			47,000			-					
2022	-			35,000			48,000			-					
2023	-			35,000			50,000			-					
2024	-			35,000			51,000			-					
2025	-			40,000			53,000			-					
2026	-			40,000			55,000			-					
2027	-			40,000			57,000			-					
2028	-			40,000			59,000			-					
2029	-			40,000			60,000			-					
2030	-			45,000			62,000			-					
2031	-			45,000			-			-					
	\$ 70,000			\$ 1,100,000			\$ 754,000			\$ 435,000					
												1,189,000			
												\$ 100,000			
Other Debt															
CIPCO/USDA															
Year Ending June 30,	Issued November 14, 2008			Interest Rates			Amount			Interest Rates			Amount		
	Amount			Amount			Amount			Amount			Amount		
	Total			Total			Total			Total			Total		
	2016	\$ 30,000			0.00%			120,000			3.25%	\$ 80,000		120,000	
2017	30,000			0.00%			126,000			3.70%	85,000		126,000		
2018	30,000			0.00%			127,000			3.70%	85,000		127,000		
2019	10,000			0.00%			134,000			4.05%	90,000		134,000		
2020	-			0.00%			140,000			4.05%	95,000		140,000		
2021	-			-			47,000			-	-		47,000		
2022	-			-			48,000			-	-		48,000		
2023	-			-			50,000			-	-		50,000		
2024	-			-			51,000			-	-		51,000		
2025	-			-			53,000			-	-		53,000		
2026	-			-			55,000			-	-		55,000		
2027	-			-			57,000			-	-		57,000		
2028	-			-			59,000			-	-		59,000		
2029	-			-			60,000			-	-		60,000		
2030	-			-			62,000			-	-		62,000		
2031	-			-			-			-	-		-		
	\$ 100,000						\$ 435,000						\$ 1,189,000		

See accompanying independent auditor's report.

City of Stuart

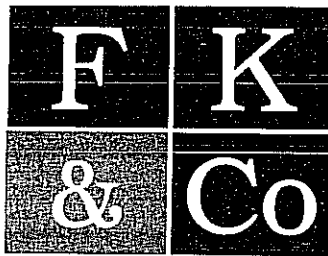
Schedule 4

Schedule of Receipts By Source and Disbursements By Function -
All Governmental Funds

For the Last Three Years

	2015	2014	2013
Receipts:			
Property tax	\$ 664,590	703,988	744,794
Tax increment financing	1,178,971	822,478	779,611
Other city tax	235,120	225,398	246,220
Licenses and permits	8,015	4,237	30,703
Use of money and property	17,652	27,927	34,719
Intergovernmental	669,192	380,899	470,924
Charges for service	316,707	334,176	331,521
Special assessments	4,884	4,467	6,113
Miscellaneous	227,113	357,673	246,962
Total	\$ 3,322,244	2,861,243	2,891,567
Disbursements:			
Operating:			
Public safety	\$ 496,818	553,480	650,261
Public works	227,823	266,363	366,060
Culture and recreation	162,783	155,869	162,230
Community and economic development	210,547	952,606	589,554
General government	296,945	256,874	300,831
Debt service	1,048,422	2,946,286	738,642
Capital projects	978,622	2,025,141	1,357,886
Total	\$ 3,421,960	7,156,619	4,165,464

See accompanying independent auditor's report.



FALLER, KINCHELOE & Co, PLC

Certified Public Accountants

Independent Auditor's Report on Internal Control
over Financial Reporting and on Compliance and Other Matters
Based on an Audit of Financial Statements Performed in Accordance with
Government Auditing Standards

To the Honorable Mayor and
Members of the City Council:

We have audited in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Stuart, Iowa (City) as of and for the year ended June 30, 2015, and the related Notes to Financial Statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated January 28, 2016. Our report expressed unmodified opinions on the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information, which were prepared on the basis of cash receipts and disbursements, a basis of accounting other than U.S. generally accepted accounting principles. Our report expressed an adverse opinion on the aggregate discretely presented component units due to the omission of the Stuart Municipal Utilities and the Stuart Library Foundation.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City's internal control over financial reporting to determine the audit procedures appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings, we identified deficiencies in internal control we consider to be material weaknesses and a significant deficiency.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the City's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiencies in internal control described in the accompanying Schedule of Findings as items (A), (B), (C), (D) and (F) to be material weaknesses.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control which is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying Schedule of Findings as item (E) to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters which are described in the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2015 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

City's Responses to the Findings

The City's responses to the findings identified in our audit are described in the accompanying Schedule of Findings. The City's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing and not to provide an opinion on the effectiveness of the City's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.



FALLER, KINCHELOE & CO., PLC

Des Moines, Iowa
January 28, 2016

City of Stuart

Schedule of Findings

Year ended June 30, 2015

Findings Related to the Financial Statements:

INTERNAL CONTROL DEFICIENCIES:

(A) Segregation of Duties – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. Although one full-time individual and one part-time individual are involved in the accounting duties of the City of Stuart, (City) there is insufficient segregation of duties to prevent one individual from having control over each of the following areas for the City:

- 1) Cash – reconciling bank accounts, initiating cash receipts and handling and recording cash.
- 2) Investments – detailed record keeping, custody and reconciling.
- 3) Long-term debt – recording and reconciling.
- 4) Receipts – collecting, depositing, posting and reconciling.
- 5) Accounting system – performing all general accounting functions and having custody of City assets.
- 6) Disbursements – preparing checks, signing checks and access to the accounting records.
- 7) Petty cash – custody, reconciling and recording.
- 8) Payroll – recordkeeping, preparation and distribution.

Recommendation – We realize with a limited number of office employees, segregation of duties is difficult. However, the City should review its control procedures to obtain the maximum internal control possible under the circumstances utilizing currently available staff, including elected officials. Evidence of review of reconciliations should be indicated by initials of the independent reviewer and date of the review.

Response – The City will review its control procedures to obtain the maximum internal control possible with the limited staff it has.

Conclusion – Response acknowledged.

(B) Financial Reporting – We noted that while management is capable of preparing accurate financial statements that provide information sufficient for City Council members to make management decisions, reporting financial data reliably in accordance with an other comprehensive basis of accounting (OCBOA) requires management to possess sufficient knowledge and expertise to select and apply accounting principles and prepare year-end financial statements, including note disclosures. Due to the technical nature of these requirements, management does not prepare this information, which is a common situation in small entities.

Recommendation – Obtaining additional knowledge through reading relevant accounting literature and attending local professional education courses should help management significantly improve in the ability to prepare OCBOA financial statements.

Response – These are very technical issues that the average citizen would not understand. This issue relates to auditor independence issues, and we accept the risk associated with not being able to prepare these documents and apply accounting principles in accordance with the OCBOA requirement.

Conclusion – Response acknowledged.

City of Stuart

Schedule of Findings

Year ended June 30, 2015

- (C) Receipts – No immediate record of receipt is generated for aquatic center receipts. Instead, at the close of business, the aquatic center manager completes a daily deposit worksheet which documents the amount of receipts collected that day.

Instances were noted in which receipts were not deposited to the bank for approximately a month after receipt.

Recommendation – The City should implement procedures to ensure an immediate record of receipt is generated at the time of receipt for all aquatic center receipts. In addition, receipts should be deposited more timely, preferably daily, or when cash and checks on hand exceeds \$100.

Response – We will implement these recommendations.

Conclusion – Response acknowledged.

- (D) Fire/Rescue Department Billings - A private contractor provides billing and collection services for the fire department. However, the City does not receive any documentation from the private contractor documenting a reconciliation of fire department billings, collections and delinquencies. In addition, there does not appear to be any procedures in place to ensure all fire department services are billed.

Recommendation – The City should obtain or prepare a monthly report which reconciles fire department billings, collections and delinquencies. In addition, procedures should be implemented to ensure all fire department services are billed.

Response – We will attempt to implement this recommendation.

Conclusion – Response acknowledged.

- (E) Credit Cards – The City has credit cards for use by various employees while on City business. The City has not adopted a formal policy to regulate the use of credit cards and to establish procedures for the proper accounting of credit card charges.

Recommendation – The City should adopt a formal written policy regulating the use of City credit cards. The policy, at a minimum, should address who controls the credit cards, who is authorized to use credit cards and for what purposes, as well as the types of supporting documentation required to substantiate charges.

Response – Although we have not established a formal written policy detailing specifics on the use of City credit cards, we have unwritten guidelines. We will review procedures and guidelines and establish a written policy.

Conclusion – Response acknowledged.

- (F) Material Adjustments – Material adjustments were made to the financial statements. For example, general obligation debt payments were recorded in the Special Revenue, Urban Renewal Tax Increment Fund and the Capital Projects Funds. In addition, cash associated with an advance refunding was reported in the prior audit, but the amount should not have been reported in the prior audit.

The City has not fully implemented the Uniform Chart of Accounts (COA) for Iowa City Governments approved by the City Finance Committee on August 22, 2014. As a result, material adjustments were made to the accounting records in order to properly classify certain receipts and disbursements.

City of Stuart

Schedule of Findings

Year ended June 30, 2015

Recommendation – The City should implement procedures to ensure that all transactions are properly recorded on the accounting system. The City should also implement procedures to ensure all receipts and disbursements are properly classified in the accounting records. In addition, to provide better financial information and control, the COA, or its equivalent, should be followed.

Response – In the future the city will make necessary accounting entries to ensure all transactions are properly recorded on the accounting system. In addition, we will follow the COA in the future.

Conclusion – Response acknowledged.

INSTANCES OF NONCOMPLIANCE:

No matters were noted.

City of Stuart
Schedule of Findings
Year ended June 30, 2015

Other Findings Related to Required Statutory Reporting:

- (1) Certified Budget – Disbursements during the year ended June 30, 2015 exceeded the amounts budgeted in the debt service function. Chapter 384.20 of the Code of Iowa states, “Public monies may not be expended or encumbered except under an annual or continuing appropriation.”

The City of Stuart’s (City) budget was adopted by motion of the Council. Chapter 384.16 of the Code of Iowa states, in part, “... the Council shall adopt by resolution a budget...”

In addition, the budget document did not include all debt issues of the City.

Recommendation – The budget should have been amended in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget. The budget should be adopted by resolution of the Council in accordance with Code of Iowa requirements. In addition, all debt issues should be recorded on the budget documents as required.

Response – We will implement these recommendations.

Conclusion – Response acknowledged.

- (2) Questionable Disbursements – We noted no disbursements that may not meet the requirements of public purpose as defined in an Attorney General’s opinion dated April 25, 1979.
- (3) Travel Expense - No disbursements of City money for travel expenses of spouses of City officials or employees were noted.
- (4) Business Transactions – No business transactions between the City and City officials or employees were noted.
- (5) Bond Coverage - Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure that the coverage is adequate for current operations.
- (6) City Council Minutes – No transactions were found that we believe should have been approved in the Council minutes but were not.
- (7) Deposits and Investments – No instances of non-compliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the City’s investment policy were noted.
- (8) Revenue Bonds – The sewer revenue bond resolutions require a sinking account be established and monthly transfers equal to 1/12 of the principal and interest coming due be made to the sinking account. We noted that the City did not properly fund a sinking account for the sewer revenue bonds.

Recommendation – The City should implement procedures to ensure the sewer revenue bond sinking account requirements are met.

Response – We will review this situation and take appropriate action.

Conclusion – Response acknowledged.

City of Stuart
Schedule of Findings
Year ended June 30, 2015

- (9) Property/Liability Insurance – The City levies a tax to pay for liability insurance coverage. The proceeds of this tax are used to pay all the costs associated with liability insurance coverage. The costs incurred by the sewer operations for liability insurance coverage have been included in the tax levy for liability insurance coverage.

Recommendation – Costs incurred for liability insurance coverage for the sewer operations should be charged to those funds and not be included in the tax levy.

Response – We will implement this recommendation.

Conclusion – Response acknowledged.

- (10) Payment of General Obligation Bonds – Certain general obligation bonds were paid from the Special Revenue, Urban Renewal Tax Increment Fund and the Capital Projects Fund. Chapter 384.4 of the Code of Iowa states, in part “Moneys pledged or available to service general obligation bonds, and received from sources other than property tax, must be deposited in the debt service fund.”

Recommendation – The City should transfer from the Special Revenue, Urban Renewal Tax Increment Fund and the Capital Projects Fund for future funding contributions. Payment of the bonds should then be disbursed from the Debt Service Fund.

Response – We will transfer in the future as recommended.

Conclusion – Response acknowledged.

- (11) Annual Financial Report – Chapter 384.22 of the Code of Iowa requires the City’s Annual Financial Report contain a “summary for the preceding fiscal year of all collections and receipts, all accounts due the city, and all expenditures...” The City’s Annual Financial Report reported receipts, disbursements, fund balances and debt balances which do not agree with the City’s records.

Recommendation – The City should ensure future Annual Financial Reports agree with the City’s records.

Response – We will implement this recommendation.

Conclusion – Response acknowledged.

- (12) Bank Interest – Bank interest earned on road use tax funds and cemetery perpetual care funds is currently credited to those funds. The Code of Iowa requires bank interest earned on those funds be credited to the General Fund.

Recommendation – The City should implement procedures to ensure bank interest earned is credited to the appropriate funds, as required by the Code of Iowa.

Response – We will implement this recommendation.

Conclusion – Response acknowledged.

City of Stuart

Schedule of Findings

Year ended June 30, 2015

- (13) Payroll/Disbursements – Some employees do not document “time in” and “time out” on their timesheet. Instead, these employees only document the number of hours worked on their timesheet. In addition, instances were noted where supervisors did not always approve their employees’ timesheets. To provide better control over employees, employees should document “time in” and “time out” on their timesheets, and all employees’ timesheets should be reviewed and approved by a supervisor.

Some employee wages were not reported to the Iowa Workforce Development, as required.

Individuals who work in the fire and rescue department are currently are paid as independent contractors. It would appear that these individuals are employees who should be paid as employees, with all applicable taxes withheld, and the City contributing its share of the payroll taxes.

Our review noted that the City does not require supervisors to document their review and approval of payment for travel reimbursements prior to submittal to the City Council for payment.

Recommendation – The City should ensure that “time in” and “time out” are documented on all employees’ timesheets and that all employees’ timesheets are reviewed and approved by a supervisor. In addition, all employee wages should be reported to the Iowa Workforce Development, as required.

The City should review its procedures and determine if individuals who work in the fire and rescue department who receive compensation should be paid as employees or independent contractors. If the individuals should be paid as employees, all applicable payroll withholdings and employer payroll taxes should be withheld and paid by the City.

The City should implement procedures to ensure all travel reimbursements are approved by a supervisor prior to submittal to the City Council for payment.

Response – We will review this and take appropriate action.

Conclusion – Response acknowledged.

- (14) Tax Increment Financing (TIF) – Chapter 403.19 of the Code of Iowa provides a municipality may certify loans, advances, indebtedness and bonds (indebtedness) to the County Auditor which qualify for reimbursement from incremental property tax. The County Auditor provides for the division of property tax to repay the certified indebtedness and provides available incremental property tax in subsequent fiscal years without further certification by the City until the amount of certified indebtedness is paid. Indebtedness incurred is to be certified to the County Auditor and then the divided property tax is to be used to pay the principal of and interest on the certified indebtedness. Chapter 403.19 of the Code of Iowa requires the date the City Council initially approved the debt be included on the TIF certification.

We noted the following regarding the City’s TIF debt certifications to the County Auditor:

- The City did not certify some TIF indebtedness for rebate and economic development agreements to be paid from the Special Revenue, Urban Renewal Tax Increment Fund, as required by Chapter 403.19 of the Code of Iowa.
- Bank interest credited to the Special Revenue, Urban Renewal Tax Increment Fund was not decertified to the County Auditor for the amounts recorded in the fund, as required by the Code of Iowa.

City of Stuart

Schedule of Findings

Year ended June 30, 2015

Recommendation – The City should consult TIF legal counsel to determine the disposition of these issues. The City should ensure the TIF debt certification complies with Chapter 403 of the Code of Iowa. The City should determine the correct amounts to be certified in the future for the rebate and economic development payments. In addition, the City should decertify interest credited to the Special Revenue, Urban Renewal Tax Increment Fund as required.

Response – We will consult with legal counsel regarding these issues.

Conclusion – Response acknowledged.

- (15) Annual Urban Renewal Report – The annual urban renewal report was approved and was certified to the Iowa Department of Management on or before December 1. However, we noted that the City's beginning and ending cash balances, receipts, disbursements, and the beginning and ending obligation balances do not agree with the City's general ledger or the City's records.

Recommendation – The City should ensure the balances and amounts reported on the Annual Urban Renewal Report agree to the City's records.

Response – We will attempt to implement this recommendation.

Conclusion – Response acknowledged.